

tepaV

Economic Policy Research Foundation of Turkey

How to initiate regional integration in the Caucasus?

Güven Sak

April 21, 2008, Brussels

Framework

- Why regional economic integration?
 - Trade facilitation important
- How to design private sector driven projects for regional economic integration?
 - Trade facilitation at the microcosmos
- What role for Turkey?
 - Start-up PSD projects
- How to move forward?

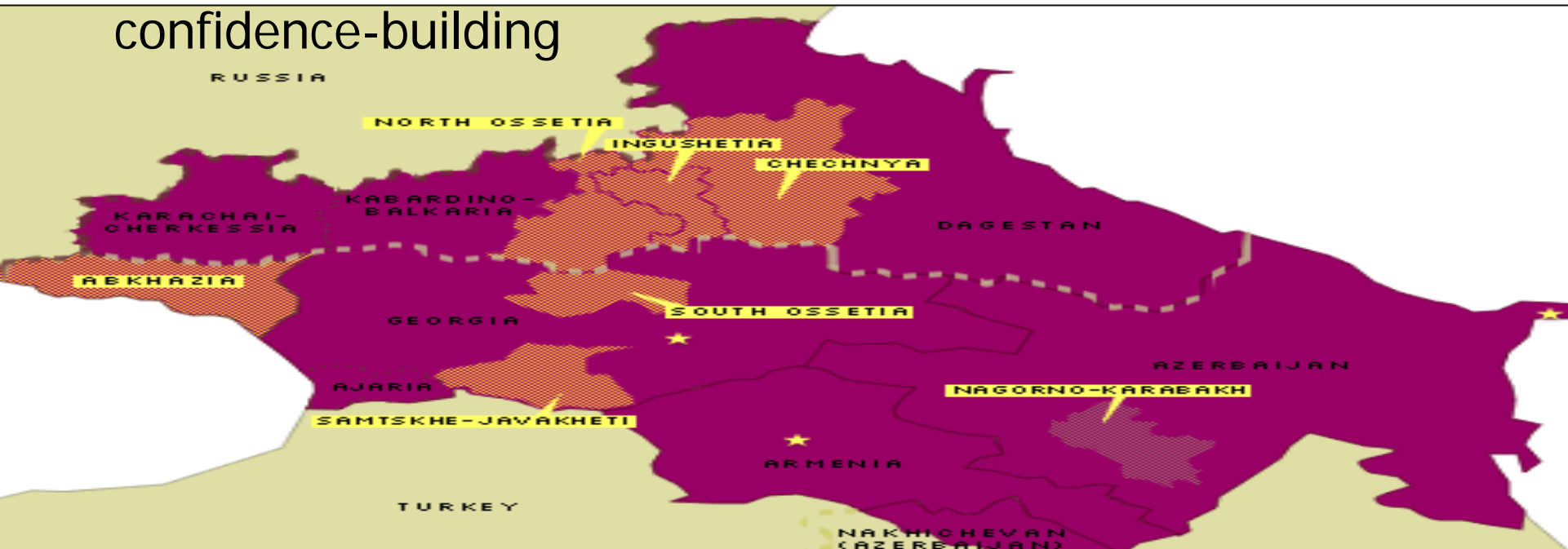
Why regional integration is important?

- A growing China, a well developed EU and the gray area – including Caucasaisa- in between...
 - ➔ trade routes
 - ➔ energy flow
- Gradual integration of Caucasus into the global economy is the issue...*



Frozen conflicts and the post-conflict rehabilitation are the key constraints

- Frozen conflicts mean closed borders, blockades and damaged infrastructure.
 - Trade facilitation is the issue.
- We cannot wait for a comprehensive peace treaty. Need for confidence-building



How should we start approaching the issue?

- PSD should be the key policy perspective
 - Private sector actors as the vehicles of partnership
 - Political support matters
 - Need for an incentive compatible concrete project
- Two different approaches to PSD
 - ① Big and ambitious projects. Aimed to resolve root-causes and allocate big resources
 - ② Profit-seeking. Creative shortcuts for doing business. Finding political support
 - Well-functioning public-private dialogue mechanisms
 - Concrete and local projects. Interim solutions. (Save the day, create hope for tomorrow)
 - Engage in “transformational diplomacy”

Approach of international organizations

Our Approach

Business association networks as a confidence building measure

- Ankara Forum as a permanent private sector dialogue mechanism
 - ➔ Establishing and running a network of businessmen for cooperation
 - ➔ Bringing together Palestinian, Turkish and Israeli businessmen for the first time
- Aim is to hold trilateral meetings regularly and establish working groups
 - ➔ Each meeting is a new confidence-building step.
- İstanbul Forum for Economic Cooperation between Afghanistan, Turkey and Pakistan



Why the project is incentive compatible?

- Tarkumiya industrial estate in the West Bank.
 - Whether a C or a B area is the issue under discussion.
- Turkish stake:
 - Creating opportunities for Turkish firms
- Palestinian stake:
 - job creation
 - spillovers (vocational training, sub-contracting)
 - a well functioning border system
 - capacity building
- Israeli stake:
 - security improvement.
 - increased stability due to job creation
 - logistics and other services

What does Public-Private Partnership (PPP) mean?

- TOBB has launched the modernization projects of border gates in Turkey in collaboration with government and public institutions
- BOT (build-operate-transfer) model
 - ➔ Transferred to the government after the concession period
 - ➔ No burden on public budget
 - ➔ Effective daily management
- New border gates offer:
 - ➔ Decreasing border transit time and related costs
 - ➔ Facilitates customs formalities
 - ➔ Efficient border management

Before modernization



After modernization



Turkish private sector is a great asset for PSD in the region (1)

Business Competitiveness Index, World Rank (2006)

Country	Business Competitiveness Index	Business Environment Index	Company Operations and Strategy Ranking
Turkey	46	46	41
Greece	49	47	53
Romania	74	73	73
Azerbaijan	77	78	66
Russian Federation	79	77	78
Ukraine	81	80	82
Bulgaria	83	81	95
Serbia and Montenegro	86	85	110
Armenia	94	93	101
Georgia	100	101	97
Albania	119	120	113

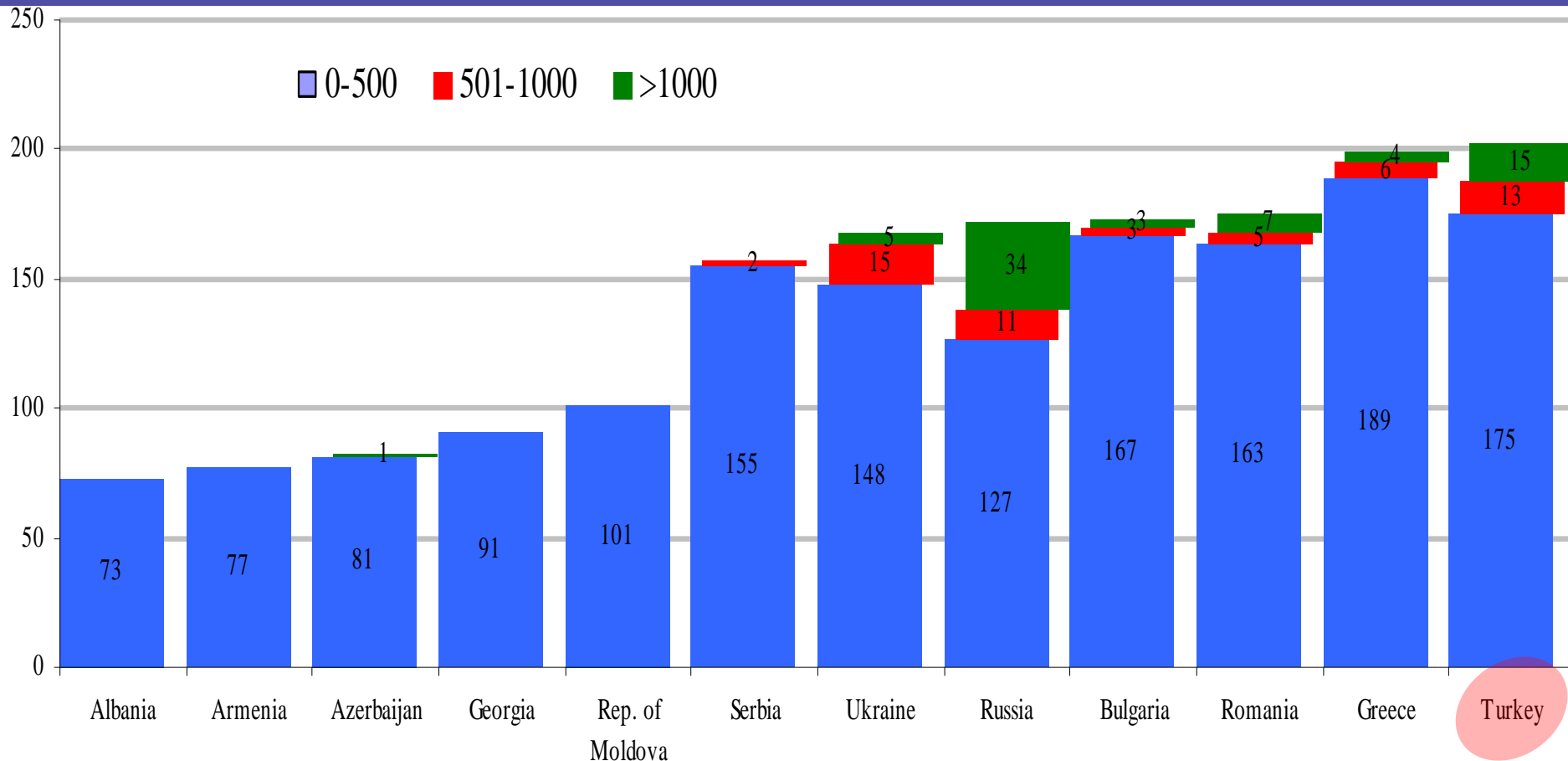
Turkish private sector is a great asset for PSD in the region (2)

Easiness of Trading Across Borders (2008)

Country	Documents for export (number)	Time for export (days)	Cost to export (US\$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US\$ per container)
Turkey	7	14	865	8	15	1,013
Greece	5	20	998	6	25	1,245
Ukraine	6	31	1,045	10	39	1,065
Romania	5	12	1,075	6	13	1,075
Georgia	8	12	1,105	7	14	1,105
Armenia	7	30	1,165	8	24	1,335
Serbia	6	12	1,240	6	14	1,440
Bulgaria	5	23	1,329	7	21	1,377
Moldova	6	32	1,425	7	35	1,545
Russia	8	36	2,050	13	36	2,050
Azerbaijan	9	56	2,715	14	56	2,945

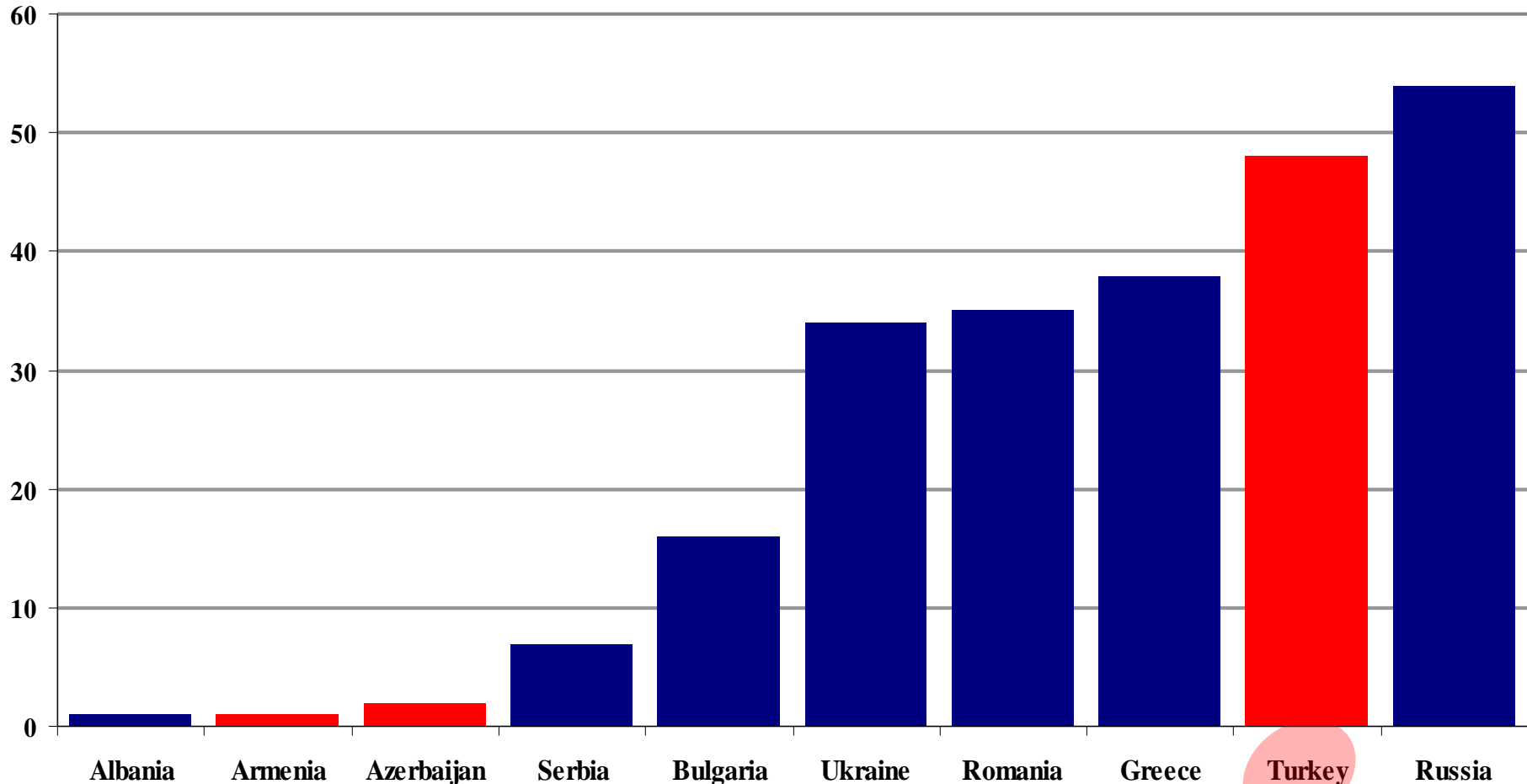
Turkish private sector is a great asset for PSD in the region (3)

Breakdown of number of export destinations by export volume (million US dollar, 2005)



Turkish private sector is a great asset for PSD in the region (4)

Number of export items with an export volume more than 500 million US dollars (SITC rev3, 2 digit)



Conclusions: Time has come for private sector driven projects...

- Rapid transformation in Eurasia has started
- PSD is the key component of the transformation process
- Private sector could not develop through grand designs, it is a practical process with concrete steps
- Turkish private sector has relevant know-how to share
 - Industrial estates in Palestine
 - (a trade facilitation challenge)
 - Border management and modernization experience in Turkey